

GNB Incorporated

Corporate Headquarters

Mailing Address:
P.O. Box 64100
St. Paul, MN 55164-0100 U.S.A.1110 Highway 110
Mendota Heights, MN 55118
Telephone (612)681-5000

September 28, 1988

U. S. Environmental Protection Agency
Region IX (San Francisco Office)
215 Fremont Street
San Francisco, California 94105Re: Financial Liability
Vernon, California
EPA ID # CAD097854541CERTIFIED MAIL P 058 013 171
RETURN RECEIPT REQUESTED

Dear Sir:

I am the chief financial officer of GNB Incorporated, 1110 Highway 110, Mendota Heights, Minnesota 55118. This letter is in support of the use of the financial test to demonstrate financial responsibility for liability coverage as specified in Subpart H of 40 CFR Parts 264 and 265.

The firm identified above is the owner or operator of the following facilities for which liability coverage for both sudden and nonsudden accidental occurrences is being demonstrated through the financial test specified in Subpart H of 40 CFR Parts 264 and 265:

GNB Incorporated
2700 South Indiana Street
Los Angeles, California 90023-0957
California ID # CAD097854541
EPA ID # CAD097854541Sudden: \$ 2,000,000
Nonsudden: \$ 6,000,000GNB Incorporated
South Fifth Street
Frisco, Texas 75034
Texas Registration # 30516
EPA ID # TXD006451090Sudden: \$ 2,000,000
Nonsudden: \$ 6,000,000GNB Incorporated
1880 Valley View Lane
Farmers Branch, Texas 75234
Texas Registration # 31697
EPA ID # TXD007331879Sudden: \$ 2,000,000
Nonsudden: \$ 6,000,000GNB Incorporated
6901 Westport Avenue
Shreveport, Louisiana 71129
Louisiana ID # GD708
EPA ID # LAD058530510Sudden: \$ 2,000,000
Nonsudden: \$ 6,000,000GNB Incorporated
Joy Road
Columbus, Georgia 31092
Georgia ID # GAD070330576
EPA ID # GAD070330576Sudden: \$ 2,000,000
Nonsudden: \$ 6,000,000

GNB Incorporated

Corporate Headquarters

March 29, 1988

Mailing Address:
P.O. Box 64100
St. Paul, MN 55164-0100 U.S.A.1110 Highway 110
Mendota Heights, MN 55118
Telephone (612)681-5000U. S. Environmental Protection Agency
Region IX (San Francisco Office)
215 Fremont Street
San Francisco, California 94105Re: Financial Liability
Vernon, California
EPA ID # CAD097854541CERTIFIED MAIL P 058 011 872
RETURN RECEIPT REQUESTED

Dear Sir:

I am the chief financial officer of GNB Incorporated, 1110 Highway 110, Mendota Heights, Minnesota 55118. This letter is in support of the use of the financial test to demonstrate financial responsibility for liability coverage as specified in Subpart H of 40 CFR Parts 264 and 265.

The firm identified above is the owner or operator of the following facilities for which liability coverage for both sudden and nonsudden accidental occurrences is being demonstrated through the financial test specified in Subpart H of 40 CFR Parts 264 and 265:

GNB Incorporated
2700 South Indiana Street
Los Angeles, California 90023-0957
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Nonsudden: \$ 6,000,000GNB Incorporated
6901 Westport Avenue
Shreveport, Louisiana 71129
Louisiana ID # GD708
EPA ID # LAD058530510Sudden: \$ 2,000,000
Nonsudden: \$ 6,000,000


This firm is not required to file a Form 10K with the Securities and Exchange Commission (SEC) for the latest fiscal year.

The fiscal year of this form ends of December 31. The figures for the following items marked with an asterisk are derived from this firm's independently audited, year-end financial statements for the latest completed fiscal year, ended December 31, 1987.

PART A. LIABILITY COVERAGE FOR ACCIDENTAL OCCURRENCES
(Thousands of Dollars)

| | | | |
|------|---|-----------------|----------------|
| 1. | Amount of annual aggregate liability coverage to be demonstrated: | \$ | <u>8,000</u> |
| * 2. | Current assets: | \$ | <u>166,710</u> |
| * 3. | Current Liabilities | \$ | <u>72,433</u> |
| 4. | Net working capital (line 2 minus line 3): | \$ | <u>94,277</u> |
| * 5. | Tangible net worth: | \$ | <u>70,667</u> |
| * 6. | If less than 90% of assets are located in the U.S., give total U.S. assets: | \$ | <u>N/A</u> |
| 7. | Is line 5 at least \$10 million? | YES <u>X</u> | NO ___ |
| 8. | Is line 4 at least 6 times line 1? | <u>X</u> | ___ |
| 9. | Is line 5 at least 6 times line 1? | <u>X</u> | ___ |
| 10. | Are at least 90% of assets located in the U.S.? If not, complete line 11. | <u>X</u> | ___ |
| 11. | Is line 6 at least 6 times line 1? | <u>N/A</u> | ___ |

I hereby certify that the wording of this letter is identical to the wording specified in 40 CFR 264.151(g) as such regulations were constituted on the date shown immediately below.


F. X. Beaudette
Executive Vice President, Finance
March 29, 1988

Enclosure

| | | | |
|-----|-------------------|-------|---------------------------------------|
| cc: | E. C. Milton | File: | CA (Vernon) HWMP |
| | A. J. Hipp | | Vol II, Sec II, App E, Exh 7, S-Exh 1 |
| | R. Gerstein | | @ Mendota @ Vernon |
| | B. Puckett-Vernon | | |
| | A. Larson | | |

EM0006



1400 Pillsbury Center
Minneapolis, Minnesota 55402
612/339-0771

Board of Directors
GNB Incorporated
Mendota Heights, Minnesota

We have examined the consolidated financial statements of GNB Incorporated as of and for the year ended December 31, 1987, and issued our report thereon dated February 12, 1988. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In the course of our examination, we have examined the attached schedule of Summary Financial Information and noted that the amounts shown for total current assets, total current liabilities and tangible net worth were derived from the financial statements as of December 31, 1987 mentioned above.

We have compared the amounts of total current assets, total current liabilities and tangible net worth from the attached schedule of Summary Financial Information to the comparable amounts in the letter of certification from Mr. F. X. Beaudette, Chief Financial Officer of GNB Incorporated, dated March 30, 1988 and found the compared amounts to be in agreement. During our comparison nothing came to our attention which caused us to believe the information in the letter of certification should be adjusted.

Ernst & Whinney

Minneapolis, Minnesota
March 30, 1988

SUMMARY FINANCIAL INFORMATION (Unaudited)

GNB INCORPORATED

December 31, 1987

| | |
|-----------------------------|---------------|
| Total current assets | \$166,710,000 |
| Total current liabilities | 72,433,000 |
| Tangible net worth (Note 1) | 70,667,000 |

Note 1--Tangible Net Worth is defined as Shareholders' Equity, less
intangible assets.

GNB Incorporated

Automotive Battery Division

Mailing Address:
P.O. Box 64100
St. Paul, MN 55164-0100 U.S.A.

1110 Highway 110
Mendota Heights, MN 55118
Telephone (612)681-5000



September 28, 1989

U. S. Environmental Protection Agency
Region IX (San Francisco Office)
215 Fremont Street
San Francisco, California 94105

Re: Financial Liability
Vernon, California
EPA ID # CAD097854541

CERTIFIED MAIL P 819 640 851
RETURN RECEIPT REQUESTED

Dear Sir:

I am the chief financial officer of GNB Incorporated, 1110 Highway 110, Mendota Heights, Minnesota 55118. This letter is in support of the use of the financial test to demonstrate financial responsibility for liability coverage as specified in Division 30, Title 22, California Code of Regulations.

The firm identified above is the owner or operator of the following facilities for which liability coverage for both sudden and nonsudden accidental occurrences is being demonstrated through the financial test specified in Division 30, Title 22, California Code of Regulations:

GNB Incorporated
2700 South Indiana Street
Los Angeles, California 90023-0957
California ID # CAD097854541
EPA ID # CAD097854541

Sudden: \$ 2,000,000
Nonsudden: \$ 6,000,000

GNB Incorporated
South Fifth Street
Frisco, Texas 75034
Texas Registration # 30516
EPA ID # TXD006451090

Sudden: \$ 2,000,000
Nonsudden: \$ 6,000,000

GNB Incorporated
1880 Valley View Lane
Farmers Branch, Texas 75234
Texas Registration # 31697
EPA ID # TXD007331879

Sudden: \$ 2,000,000
Nonsudden: \$ 6,000,000

GNB Incorporated
6901 Westport Avenue
Shreveport, Louisiana 71129
Louisiana ID # GD708
EPA ID # LAD058530510

Sudden: \$ 2,000,000
Nonsudden: \$ 6,000,000

GNB Incorporated
Joy Road
Columbus, Georgia 31092
Georgia ID # GAD070330576
EPA ID # GAD070330576

Sudden: \$ 2,000,000
Nonsudden: \$ 6,000,000

U. S. Environmental Protection Agency
Region IX
September 28, 1989
Page 2

GNB Incorporated
3521 South 50th Street
Tampa, Florida 33619
Florida ID # FLD000608083
EPA ID # FLD000608083

Sudden: \$ 2,000,000
Nonsudden: \$ 6,000,000

This firm is the owner or operator of the following UIC facilities for which financial assurance for plugging and abandonment is required under Part 144. The current closure cost estimates as required by 40 CFR 144.62 are shown for each facility:

This firm is not required to file a Form 10K with the Securities and Exchange Commission (SEC) for the latest fiscal year.

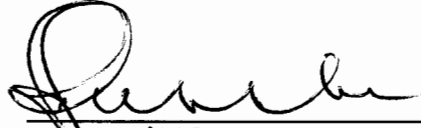
The fiscal year of this firm ends on June 30. The figures for the following items marked with an asterisk are derived from this firm's independently audited, year-end financial statements for the latest completed fiscal year, ended June 30, 1989.

PART A. LIABILITY COVERAGE FOR ACCIDENTAL OCCURRENCES
(Thousands of Dollars)

| | | | | |
|------|---|-----|----------------|-----------|
| 1. | Amount of annual aggregate liability coverage to be demonstrated: | \$ | <u>16,000</u> | |
| * 2. | Current assets: | \$ | <u>209,379</u> | |
| * 3. | Current Liabilities | \$ | <u>110,434</u> | |
| 4. | Net working capital (line 2 minus line 3): | \$ | <u>98,945</u> | |
| * 5. | Tangible net worth: | \$ | <u>100,029</u> | |
| * 6. | If less than 90% of assets are located in the U.S., give total U.S. assets: | \$ | <u>N/A</u> | |
| 7. | Is line 5 at least \$10 million? | YES | <u>X</u> | NO ___ |
| 8. | Is line 4 at least 6 times line 1? | | <u>X</u> | ___ |
| 9. | Is line 5 at least 6 times line 1? | | <u>X</u> | ___ |
| 10. | Are at least 90% of assets located in the U.S.? If not, complete line 11. | | <u>X</u> | ___ |
| 11. | Is line 6 at least 6 times line 1? | | <u>N/A</u> | ___ |

U. S. Environmental Protection Agency
Region IX
September 28, 1989
Page 3

I hereby certify that this letter is worded as specified by the Department of Health Services and is being executed in accordance with the requirements of Article 17, Title 22, California Code of Regulations.



M. J. Little
Chief Financial Officer
September 28, 1989

Enclosure

cc: E. C. Milton
A. J. Hipp
B. Puckett-Vernon
F. Barnett

File: CA (Vernon) HWMP
Vol II, Sec II, App E, Exh 7, S-Exh 1
@ Mendota @ Vernon

EM0196

GNB Incorporated
3521 South 50th Street
Tampa, Florida 33619
Florida ID # FLD000608083
EPA ID # FLD000608083

Sudden: \$ 2,000,000
Nonsudden: \$ 6,000,000

This firm is not required to file a Form 10K with the Securities and Exchange Commission (SEC) for the latest fiscal year.

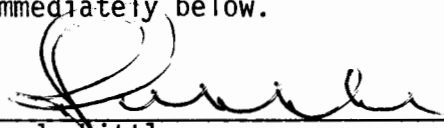
The fiscal year of this form ends of June 30. The figures for the following items marked with an asterisk are derived from this firm's independently audited, year-end financial statements for the latest completed fiscal year, ended June 30, 1988.

PART A. LIABILITY COVERAGE FOR ACCIDENTAL OCCURRENCES
(Thousands of Dollars)

| | | | |
|------|---|-----------------|------------------|
| 1. | Amount of annual aggregate liability coverage to be demonstrated: | \$ | <u>8,000</u> |
| * 2. | Current assets: | \$ | <u>213,743</u> |
| * 3. | Current Liabilities | \$ | <u>101,911</u> |
| 4. | Net working capital (line 2 minus line 3): | \$ | <u>111,832</u> |
| * 5. | Tangible net worth: | \$ | <u>122,174</u> |
| * 6. | If less than 90% of assets are located in the U.S., give total U.S. assets: | \$ | <u>N/A</u> |
| 7. | Is line 5 at least \$10 million? | YES <u>X</u> | NO <u> </u> |
| 8. | Is line 4 at least 6 times line 1? | <u>X</u> | <u> </u> |
| 9. | Is line 5 at least 6 times line 1? | <u>X</u> | <u> </u> |
| 10. | Are at least 90% of assets located in the U.S.? If not, complete line 11. | <u>X</u> | <u> </u> |
| 11. | Is line 6 at least 6 times line 1? | <u>N/A</u> | <u> </u> |

U. S. Environmental Protection Agency
Region IX
September 28, 1988
Page 3

I hereby certify that the wording of this letter is identical to the wording specified in 40 CFR 264.151(g) as such regulations were constituted on the date shown immediately below.



M. J. Little
Chief Financial Officer

Enclosure

cc: E. C. Milton
A. J. Hipp
B. Puckett-Vernon

File: CA (Vernon) HWMP
Vol II, Sec II, App E, Exh 7, S-Exh 1
@ Mendota @ Vernon

EM0006C

September 28, 1989

Board of Directors
GNB Incorporated
1110 Highway 110
Mendota Heights, Minnesota 55118

Gentlemen:

Pursuant to your request, we have applied certain agreed-upon procedures as discussed below to the financial information included in the letter of certification from Mr. M. Little, Chief Financial Officer of GNB Incorporated and subsidiaries (the Company), dated September 28, 1989. Our procedures and findings are as follows:

1. We compared the amounts of current assets, current liabilities and tangible net worth from the attached schedule of summary financial information with the amounts in the letter of certification and with the amounts in the Company's unaudited year-end financial statements for the year ended June 30, 1989 and found the compared amounts to be in agreement.
2. During our comparison nothing came to our attention which caused us to believe the information in the letter of certification as it relates to current assets, current liabilities and tangible net worth should be adjusted.

We made no independent verification of the accuracy of the GNB Incorporated trial balances maintained by the Company nor did we perform any procedures other than those specifically outlined in items 1. and 2. above. We have not audited the financial statements of GNB Incorporated in accordance with generally accepted auditing standards as of June 30, 1989 or for the year then ended.

Because the foregoing procedures do not constitute an audit performed in accordance with generally accepted auditing standards, we do not express an opinion on any of the accounts or items referred to above. Had we performed additional procedures or had we performed an audit of the financial statements in accordance with generally accepted auditing standards, matters might have come to our attention that would have been reported to you. This report relates only to the accounts and items specified above and does not extend to any financial statements of GNB Incorporated and subsidiaries taken as a whole. We make no representations as to the sufficiency of the

Board of Directors
GNB Incorporated
September 28, 1989
Page 2

procedures performed for your purposes. This report is intended solely for the use of the management of GNB Incorporated in connection with the certification by the Company of certain financial information to the environmental protection agencies of various states and may not be used for any other purpose without our written consent.

Yours very truly,

Touche Ross & Co.

GNB INCORPORATED AND SUBSIDIARIESSUMMARY FINANCIAL INFORMATION (UNAUDITED)JUNE 30, 1989

| | |
|-----------------------------|----------------------|
| Current assets | <u>\$209,379,000</u> |
| Current liabilities | <u>\$110,434,000</u> |
| Tangible net worth (Note 1) | <u>\$100,029,000</u> |

Note 1 - tangible net worth is defined as shareholder's equity less intangible assets.

Audited Consolidated Financial Statements

GNB Incorporated

December 31, 1987

Audited Consolidated Financial Statements

GNB INCORPORATED

December 31, 1987

| | |
|---|---|
| Auditors' Report. | 1 |
| Consolidated Balance Sheets | 2 |
| Consolidated Statements of Earnings and Retained Earnings | 4 |
| Consolidated Statements of Changes in Financial Position. | 5 |
| Notes to Consolidated Financial Statements. | 6 |



1400 Pillsbury Center
Minneapolis, Minnesota 55402
612/339-0771

Board of Directors
GNB Incorporated
Mendota Heights, Minnesota

We have examined the consolidated balance sheets of GNB Incorporated, a wholly-owned subsidiary of Pacific Dunlop GNB Corporation, and subsidiaries as of December 31, 1987 and 1986, and the related consolidated statements of earnings and retained earnings and changes in financial position for the years ended December 31, 1987, 1986 and 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of GNB Incorporated and subsidiaries as of December 31, 1987 and 1986, and the results of its operations and changes in its financial position for the years ended December 31, 1987, 1986 and 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Minneapolis, Minnesota
February 12, 1988

CONSOLIDATED BALANCE SHEETS

GNB INCORPORATED AND SUBSIDIARIES

(Thousands of Dollars)

| | December 31 | |
|---|------------------|------------------|
| | 1987 | 1986 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 3,508 | \$ 8,108 |
| Accounts receivable, less allowance (\$3,646--1987; \$5,626--1986) | 77,474 | 76,840 |
| Due from Pacific Chloride--Note L | 243 | |
| Inventories--Note B | 73,678 | 59,604 |
| Income taxes receivable | | 168 |
| Deferred income taxes--Note F | 5,280 | 4,316 |
| Other current assets | <u>6,527</u> | <u>4,934</u> |
| TOTAL CURRENT ASSETS | 166,710 | 153,970 |
| DUE FROM PARENT | 1,142 | |
| OTHER ASSETS | 11,829 | 9,110 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Land | 14,679 | 14,742 |
| Buildings | 41,503 | 40,233 |
| Machinery and equipment | 129,891 | 119,218 |
| Construction in progress | <u>7,570</u> | <u>3,325</u> |
| | 193,643 | 177,518 |
| Less accumulated depreciation | <u>46,539</u> | <u>32,076</u> |
| | 147,104 | 145,442 |
| | | |
| | <u>\$326,785</u> | <u>\$308,522</u> |

| | December 31 | |
|--|------------------|------------------|
| | 1987 | 1986 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Trade accounts payable | \$ 35,952 | \$ 33,344 |
| Salaries, wages and other compensation | 8,865 | 9,263 |
| Other liabilities and accrued expenses | 12,791 | 11,689 |
| Income taxes payable | 3,586 | |
| Accrued interest | 10,462 | 10,442 |
| Preferred dividend payable | | 1,000 |
| Current maturities of long-term obligations | <u>777</u> | <u>912</u> |
| TOTAL CURRENT LIABILITIES | 72,433 | 66,650 |
| DEFERRED INCOME TAXES--Note F | 18,030 | 12,080 |
| OTHER LIABILITIES | 548 | 934 |
| LONG-TERM DEBT--Note C | 149,493 | 149,595 |
| CAPITALIZED LEASE OBLIGATIONS | 9,914 | 10,573 |
| SHAREHOLDERS' EQUITY--Note E | | |
| Preferred Stock, 6% cumulative, liquidation value \$66,990, authorized 58,928 shares, issued and outstanding 58,928 shares--Note D | 58,928 | 62,348 |
| Common Stock, par value \$.01 per share, authorized 100,000,000 shares, issued and outstanding 15,000,000 shares | 150 | 150 |
| Additional paid-in capital | 1,350 | 1,350 |
| Retained earnings | 16,021 | 5,038 |
| Cumulative translation adjustment | <u>(82)</u> | <u>(196)</u> |
| | 76,367 | 68,690 |
| COMMITMENTS AND CONTINGENCIES--Note J | | |
| | <u>\$326,785</u> | <u>\$308,522</u> |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

GNB INCORPORATED AND SUBSIDIARIES

(Thousands of Dollars)

| | Year Ended December 31 | | |
|---|------------------------|-----------------|-----------------|
| | 1987 | 1986 | 1985 |
| Net sales | \$436,200 | \$382,897 | \$336,601 |
| Cost of goods sold | <u>347,587</u> | <u>307,043</u> | <u>265,405</u> |
| GROSS PROFIT | 88,613 | 75,854 | 71,196 |
| Costs and expenses: | | | |
| Engineering | 4,294 | 4,271 | 4,172 |
| Research and development | 978 | 1,045 | 1,007 |
| Marketing | 28,780 | 28,161 | 24,014 |
| General and administrative | <u>18,261</u> | <u>18,771</u> | <u>14,079</u> |
| | <u>52,313</u> | <u>52,248</u> | <u>43,272</u> |
| OPERATING EARNINGS | 36,300 | 23,606 | 27,924 |
| Other income (expense): | | | |
| Interest expense--Note H | (22,556) | (22,707) | (20,160) |
| Other income--net | <u>2,394</u> | <u>2,784</u> | <u>2,304</u> |
| | <u>(20,162)</u> | <u>(19,923)</u> | <u>(17,856)</u> |
| EARNINGS BEFORE INCOME TAXES | 16,138 | 3,683 | 10,068 |
| Provision for income taxes--Note F | <u>8,575</u> | <u>2,400</u> | <u>2,980</u> |
| NET EARNINGS | 7,563 | 1,283 | 7,088 |
| Less cumulative dividends on Redeemable Preferred Stock | | (4,420) | (3,182) |
| Plus reversal of undeclared dividends on Preferred Stock no longer manda- torily redeemable--Note D | 3,420 | | |
| Retained earnings at beginning of year | <u>5,038</u> | <u>8,175</u> | <u>4,269</u> |
| RETAINED EARNINGS AT END OF YEAR | <u>\$ 16,021</u> | <u>\$ 5,038</u> | <u>\$ 8,175</u> |
| NET EARNINGS (LOSS) PER COMMON SHARE | <u>\$.19</u> | <u>\$ (.21)</u> | <u>\$.26</u> |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

GNB INCORPORATED AND SUBSIDIARIES

(Thousands of Dollars)

| | Year Ended December 31 | | |
|--|------------------------|-----------------|-------------------|
| | 1987 | 1986 | 1985 |
| CASH FROM OPERATIONS | | | |
| Net earnings | \$ 7,563 | \$ 1,283 | \$ 7,088 |
| Non-cash expenses and gains included in earnings: | | | |
| Depreciation and amortization | 15,719 | 13,594 | 11,270 |
| Deferred income taxes | 4,986 | 2,146 | 2,599 |
| (Gain) loss on sale of property | <u>167</u> | <u>(1,145)</u> | <u>(80)</u> |
| | 28,435 | 15,878 | 20,877 |
| Working capital changes increasing (decreasing) cash: | | | |
| Accounts receivable | (634) | (5,206) | (4,718) |
| Due from Pacific Chloride | (243) | | |
| Inventories | (14,074) | (125) | (9,364) |
| Other current assets | (1,593) | (73) | 1,500 |
| Income taxes | 3,754 | 215 | 1,633 |
| Current liabilities, except debt changes and dividend payable | <u>3,332</u> | <u>15,956</u> | <u>5,571</u> |
| | <u>(9,458)</u> | <u>10,767</u> | <u>(5,378)</u> |
| TOTAL CASH FROM OPERATIONS | 18,977 | 26,645 | 15,499 |
| CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES | | | |
| Repayments of long-term debt and amortization of discount | (81) | (138,157) | (8,187) |
| Increase (decrease) in revolving credit agreement | | (11,436) | 3,028 |
| Additions to long-term debt | | 149,052 | 831 |
| Decrease in capital lease obligations | (815) | (606) | (709) |
| Preferred dividends paid | (1,000) | | (5,579) |
| Expenses paid for parent | <u>(1,142)</u> | | |
| | <u>(3,038)</u> | <u>(1,147)</u> | <u>(10,616)</u> |
| CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES | | | |
| Purchases of property, plant and equipment | (16,605) | (14,269) | (10,591) |
| Proceeds from disposals of property, plant and equipment and other | 246 | 1,168 | 649 |
| Investment in unconsolidated subsidiary | (1,700) | | |
| Decrease (increase) in other assets | (2,208) | (7,979) | (976) |
| Increase (decrease) in other liabilities | (386) | 934 | |
| Currency translation adjustment | <u>114</u> | <u>(29)</u> | <u>(167)</u> |
| | <u>(20,539)</u> | <u>(20,175)</u> | <u>(11,085)</u> |
| INCREASE (DECREASE) IN CASH | \$ (4,600) | \$ 5,323 | \$ (6,202) |

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

GNB INCORPORATED AND SUBSIDIARIES

December 31, 1987

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

Consolidation: GNB Incorporated and its wholly-owned subsidiaries ("the Company") was formed to acquire the Battery Group Business of Gould Inc. During 1987 all the holders of Common Stock in GNB Incorporated exchanged their shares for shares in GNB Holdings, Inc. In October 1987, Pacific Dunlop Limited acquired 60% of the Common Stock of GNB Holdings, Inc., which was renamed Pacific Dunlop GNB Corporation. The consolidated financial statements include the accounts of GNB Incorporated and subsidiaries, after elimination of all significant intercompany accounts and transactions.

Inventories: Inventories of GNB Incorporated and its subsidiary, Industrial Battery Company, are priced on the last-in, first-out (LIFO) basis at the lower of cost or market. Inventories of GNB Batteries (Canada), Inc. (\$2,397,000 at December 31, 1987; \$1,529,000 at December 31, 1986) are priced on the first-in, first-out (FIFO) basis at the lower of cost or market.

Property, Plant and Equipment: Property, plant and equipment including amounts under capital lease is stated at cost less accumulated depreciation. Provision for depreciation is provided generally by the straight line method based on the estimated remaining useful lives of the assets.

Income Taxes: The Company provides deferred income taxes on timing differences in the recognition of income and expenses for book and tax purposes. Investment tax credits are recognized under the flow-through method in the period earned.

Research and Development: The Company has entered into research agreements with the U.S. Government or with companies working under contracts with the U.S. Government. These contracts usually provide the Company with reimbursements on a cost plus basis and in many cases lead to production contracts. Reimbursements received are offset against the related research and development expenses.

Net Earnings Per Common Share: Net earnings per common share is based on the weighted average number of shares outstanding during the period, without including the warrant outstanding through October 1987, and is computed after deducting the cumulative preferred stock dividend of \$4,642,000, \$4,420,000 and \$3,182,000 for the years ended December 31, 1987, 1986 and 1985, respectively. All references to per share amounts have been adjusted to reflect the 10-for-1 stock split effected in January 1986.

Reclassifications: Certain 1986 and 1985 amounts have been reclassified to conform to the current year's presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

GNB INCORPORATED AND SUBSIDIARIES

NOTE B--INVENTORIES

Principal classifications of inventories were as follows (in thousands):

| | December 31 | |
|-------------------|-----------------|-----------------|
| | 1987 | 1986 |
| Finished products | \$44,860 | \$33,533 |
| Work-in-process | 11,012 | 10,942 |
| Materials | <u>17,806</u> | <u>15,129</u> |
| | <u>\$73.678</u> | <u>\$59.604</u> |

Inventories of the Company are carried on the last-in, first-out (LIFO) basis at the lower of cost or market. If these inventories had been carried on the first-in, first-out (FIFO) basis, the carrying value would have been \$12,010,000 higher at December 31, 1987 and \$253,000 lower at December 31, 1986.

NOTE C--LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

| | 1987 | 1986 |
|---|------------------|------------------|
| 13 7/8% senior notes (\$150,000 face value less unamortized discount of \$870--1987; \$948--1986) | \$149,130 | \$149,052 |
| Mortgage notes payable | <u>539</u> | <u>698</u> |
| | 149,669 | 149,750 |
| Less current maturities | <u>(176)</u> | <u>(155)</u> |
| | <u>\$149.493</u> | <u>\$149.595</u> |

The \$150 million senior notes bear interest at 13 7/8% payable semi-annually commencing July 1, 1986. The notes are due in 1996 and are redeemable at the option of the Company after January 1, 1989 at 108% of principal decreasing in 2% annual decrements to 100% on January 1, 1993. No optional redemption can be made from or in anticipation of money borrowed at an interest cost of less than 14%. On January 1, 1993, 1994 and 1995 the Company is to redeem \$30 million principal amount as a sinking fund calculated to retire 60% of the issue prior to maturity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

GNB Incorporated AND SUBSIDIARIES

NOTE C--LONG-TERM DEBT--Continued

The Company has a revolving credit agreement with a bank to borrow up to \$25 million over a three-year period at the discretion of the bank. Interest is payable monthly at prime plus 1 1/2%. The Company is required to repay the balance in full for at least a 30-day period during each twelve month period. Borrowings under the agreement are secured by the Company's inventories and receivables. No amounts were outstanding at December 31, 1987 and 1986.

Both the 13 7/8% senior notes and the revolving credit agreement restrict the payment of dividends on capital stock and the incurrence of additional indebtedness and capital expenditures, and require compliance with other covenants. The revolving credit agreement requires the Company to meet certain minimum net worth and financial ratio tests.

In December 1987, Pacific Dunlop Limited, owner of 60% of the outstanding common stock and all the preferred stock of Pacific Dunlop GNB Corporation, purchased approximately 85% of the outstanding 13 7/8% Senior Notes via a cash tender offer. In connection with the tender offer, certain provisions of the indenture were modified, although the restrictions discussed above still apply. The Company was in compliance with all covenants as of December 31, 1987.

At December 31, 1987 there are no maturities of long-term debt in the five subsequent years except for the aggregate maturities of mortgage notes of \$539,000.

NOTE D--PREFERRED STOCK

The Company's outstanding Preferred Stock was purchased by Pacific Dunlop GNB Corporation in October of 1987. At the same time the mandatory redemption provisions were deleted and the dividend rate was changed to 6% by amendment to the Company's certificate of incorporation. Because of the amendments, the Redeemable Preferred Stock at December 31, 1986 has been reclassified to shareholders' equity. The Preferred Stock is now redeemable at the Company's option at the liquidation value. The cumulative dividend rate was 5.4% prior to January 1, 1986, 7.5% in 1986 and ranged from 6.0% to 8.5% in 1987. The holder of the Preferred Stock has no voting rights.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

GNB INCORPORATED AND SUBSIDIARIES

NOTE D--PREFERRED STOCK--Continued

Preferred Stock dividends accumulated but not declared were \$7,345,000 or \$125 per share at December 31, 1987 and \$3,420,000 or \$58 per share at December 31, 1986.

NOTE E--WARRANTS

The Company's warrant granted to Gould Inc. to purchase 6,428,570 shares of the Company's Common Stock at \$.10 per share was purchased and retired by Pacific Dunlop GNB Corporation in 1987.

NOTE F--INCOME TAXES

For years prior to 1987 the Company filed its own consolidated tax return. Beginning in 1987 the Company will be included in the consolidated tax return of Pacific Dunlop GNB Corporation. The 1987 provision represents an allocation of the Company's pro rata share of the consolidated tax return and consists of the following (in thousands):

| | Year Ended December 31 | | |
|-----------|------------------------|----------------|----------------|
| | 1987 | 1986 | 1985 |
| Current: | | | |
| Federal | \$2,424 | | |
| State | 1,083 | \$ 120 | \$ 180 |
| Foreign | <u>82</u> | <u>134</u> | <u>201</u> |
| | 3,589 | 254 | 381 |
| Deferred: | | | |
| Federal | 4,619 | 1,896 | 2,339 |
| State | 103 | 250 | 260 |
| Foreign | <u>264</u> | | |
| | <u>4,986</u> | <u>2,146</u> | <u>2,599</u> |
| | <u>\$8,575</u> | <u>\$2,400</u> | <u>\$2,980</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

GNB INCORPORATED AND SUBSIDIARIES

NOTE F--INCOME TAXES--Continued

Reconciliation of the effective tax rate to the federal statutory rate is as follows:

| | Year Ended December 31 | | |
|---|------------------------|--------------|--------------|
| | 1987 | 1986 | 1985 |
| Statutory rate | 40.0% | 46.0% | 46.0% |
| State taxes, net of federal benefit | 4.4 | 5.4 | 2.3 |
| Tax effect of permanent difference between book and tax basis of: | | | |
| Property, plant and equipment | 9.7 | 50.9 | 18.3 |
| Other assets and liabilities--net | (1.1) | (23.8) | (13.3) |
| Loss on abandonment of the Savanna smelter | | | (19.2) |
| Investment tax credits | .6 | (13.2) | (5.9) |
| Impact of foreign operations | (1.7) | (8.2) | 1.3 |
| Minimum tax | | 6.4 | |
| Other | <u>1.2</u> | <u>1.7</u> | <u>.1</u> |
| | <u>53.1%</u> | <u>65.2%</u> | <u>29.6%</u> |

The provision for deferred income taxes includes the effect of the following items (in thousands):

| | Year Ended December 31 | | |
|--|------------------------|----------------|----------------|
| | 1987 | 1986 | 1985 |
| Excess of tax over book depreciation | \$2,531 | \$4,543 | \$5,739 |
| Tax credit and loss carryforwards restored (offset) against deferred tax liability | 3,632 | (877) | (2,669) |
| Warranty expense | 63 | (84) | (448) |
| Bad debt expense | 723 | (1,436) | (381) |
| Pension expense | (657) | (18) | 18 |
| Reserves for self-insurance | (964) | 5 | 30 |
| Bonus plan expenses | (128) | (203) | 331 |
| Royalty income | 53 | (124) | 56 |
| Overhead absorption | (427) | | |
| Other--net | <u>160</u> | <u>340</u> | <u>(77)</u> |
| | <u>\$4.986</u> | <u>\$2.146</u> | <u>\$2.599</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS---Continued

GNB INCORPORATED AND SUBSIDIARIES

NOTE G--EMPLOYEE BENEFIT PLANS

The Company and its subsidiaries sponsor a number of noncontributory defined benefit pension plans covering substantially all employees. The plan covering salaried employees provides benefits based on the employee's compensation during the years before retirement. Plans covering hourly employees generally provide benefits based on years of service. The Company's funding policy for all plans is to contribute amounts to the plans sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974.

In 1987, the Company adopted FASB Statement No. 87, "Employers' Accounting for Pensions." The effect of this adoption was to increase 1987 pension expense by approximately \$1,000,000. Pension expense and related information for 1986 and 1985 have not been restated.

The Company also sponsors an Investment Savings and Profit Sharing Plan covering substantially all salaried employees under which it will match, at a rate determined by the Company based on profitability, voluntary employee contributions to the plan's trust. The Company match was 25% in 1987 and 20% in 1986 and 1985. Additionally, the Company participates in two multiemployer plans which provide defined benefits to certain of the Company's union employees.

Employees of the Company's wholly-owned Canadian subsidiary are covered by two defined benefit pension plans. The cost of these plans charged to income was immaterial for each of the three years ended December 31, 1987. Commencing in 1989 the Company will be required to adopt certain accounting changes relating to these plans under FASB Statement No. 87. However, the Company has not determined the impact, if any, of such changes. The actuarial present value of accumulated benefits exceeds plan assets at December 31, 1987 by approximately \$130,000.

In 1987 the Company merged its salaried pension plan into its hourly pension plan for funding purposes only. The merger did not affect 1987 pension expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

GNB Incorporated AND SUBSIDIARIES

NOTE G--EMPLOYEE BENEFIT PLANS--Continued

A summary of the components of net periodic pension cost for the defined benefit plans in 1987, the net pension cost thereof for 1986 and 1985, and the total contributions charged to pension expense for the defined contribution and multi-employer plans follows (in thousands):

| | <u>1987</u> | <u>1986</u> | <u>1985</u> |
|---|----------------|----------------|----------------|
| Defined benefit plans: | | | |
| Service cost--benefits earned during the period | \$1,886 | | |
| Interest cost on projected benefit obligation | 3,670 | | |
| Actual return on plan assets | (2,522) | | |
| Net amortization and deferral | <u>(1,264)</u> | | |
| NET PENSION COST OF DEFINED BENEFIT PLANS | 1,770 | \$1,266 | \$1,050 |
| Defined contribution plan | 314 | 236 | 208 |
| Multi-employer plans | <u>306</u> | <u>284</u> | <u>271</u> |
| TOTAL PENSION EXPENSE | <u>\$2.390</u> | <u>\$1.786</u> | <u>\$1.529</u> |

Assumptions used in the accounting for the defined benefit plans in 1987 as of December 31 were:

| | |
|---|-------|
| Weighted average discount rates | 8.75% |
| Rates of increase in compensation levels | 5.00 |
| Expected long-term rate of return on assets | 12.00 |

The following table sets forth the funded status and amounts recognized in the consolidated statement of financial position for the Company's U.S. defined benefit pension plans (in thousands):

Actuarial present value of benefit obligations:

| | December 31 | |
|--------------------------------|-----------------|-----------------|
| | <u>1987</u> | <u>1986</u> |
| Vested benefit obligation | <u>\$39.175</u> | <u>\$36.768</u> |
| Accumulated benefit obligation | <u>\$42.451</u> | <u>\$39.822</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

GNB INCORPORATED AND SUBSIDIARIES

NOTE G--EMPLOYEE BENEFIT PLANS--Continued

| | December 31 | |
|--|------------------|-----------------|
| | <u>1987</u> | <u>1986</u> |
| Projected benefit obligation | \$46,063 | \$43,138 |
| Plan assets at fair value | <u>37,380</u> | <u>35,958</u> |
| Projected benefit obligation (in excess of) plan assets | (8,683) | (7,180) |
| Remaining net obligation at transition | 5,942 | 6,366 |
| Unrecognized net loss | <u>1,189</u> | <u> </u> |
| Net pension liability included in other liabilities and accrued expenses | <u>\$(1,552)</u> | <u>\$ (814)</u> |

NOTE H--INTEREST COSTS

During the years ended December 31, 1987, 1986 and 1985, the Company capitalized \$333,000, \$335,000 and \$153,000, respectively, of interest costs as part of the cost of constructing or preparing certain assets for use.

NOTE I--LEASES

The Company leases various buildings and equipment under long-term leases. The leases require payment of fixed and variable rentals and, in certain instances, insurance, taxes and maintenance costs. Property, plant and equipment include the following with respect to leases which have been capitalized (in thousands):

| | December 31 | |
|-------------------------------|-----------------|-----------------|
| | <u>1987</u> | <u>1986</u> |
| Property, plant and equipment | \$14,474 | \$14,474 |
| Less accumulated depreciation | <u>1,579</u> | <u>1,158</u> |
| | <u>\$12.895</u> | <u>\$13.316</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

GNB INCORPORATED AND SUBSIDIARIES

NOTE I--LEASES--Continued

Future minimum rental commitments for all capital leases and non-cancellable operating leases are as follows (in thousands):

| | <u>Capital Leases</u> | <u>Operating Leases</u> |
|---|---------------------------|-----------------------------|
| For the year ending December 31: | | |
| 1988 | \$ 1,610 | \$2,131 |
| 1989 | 1,610 | 1,452 |
| 1990 | 1,552 | 490 |
| 1991 | 1,552 | 351 |
| 1992 | 1,445 | 121 |
| Thereafter | <u>9,154</u> | <u>43</u> |
| Net minimum lease payments | 16,923 | <u>\$4,588</u> |
| Less amount representing interest | <u>6,408</u> | |
| Present value of net minimum lease payments | <u>\$10,515</u> | |

Total rent expense for the years ended December 31, 1987, 1986 and 1985 was \$5,788,000, \$5,167,000 and \$4,770,000, respectively.

NOTE J--CONTINGENCIES

The Company's operations are affected by a number of federal, state and local environmental regulations. Management monitors for potential soil and water pollution at several locations on an ongoing basis. No costs are accrued for these sites until the extent of the pollution and related clean-up costs can be reasonably estimated. No estimate of the range of possible loss can be made; however, management currently believes that clean-up expenditures, if ultimately required, will not be material to the Company's financial position.

Three plants are currently engaged in environmental clean-up efforts for identified pollution. At December 31, 1987 and 1986, respectively, \$395,000 and \$516,000 was accrued for the estimated remaining costs at these sites. The Company has also issued letters of credit to the appropriate regulatory agencies to guarantee potential costs at these three locations for \$2,108,000 as of December 31, 1987.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

GNB INCORPORATED AND SUBSIDIARIES

NOTE J--CONTINGENCIES--Continued

In the normal course of business, the Company is involved in various litigation and other legal proceedings. The range of possible loss or losses, if any, cannot be reasonably estimated; however, Company management does not believe that an unfavorable outcome in any one of these cases will be material to the financial position of the Company.

The Company was contingently liable under various letters of credit related to ongoing business activities for \$3,161,000 at December 31, 1987.

NOTE K--SEGMENT INFORMATION

The Company's business constitutes a single business segment, defined as lead-acid battery production. Export sales account for less than 3% of consolidated sales. The operations of the Company's foreign subsidiary are not significant to the consolidated financial statements.

For the year ended December 31, 1987, one customer accounted for approximately 15% of the Company's sales. In 1986 and 1985, this customer accounted for 14% of sales.

NOTE L--SUBSEQUENT EVENTS

In February 1988, Pacific Dunlop GNB Corporation acquired substantially all the assets and liabilities of Pacific Chloride Incorporated (a wholly-owned subsidiary of Pacific Dunlop Limited) at adjusted book value and contributed them to GNB Incorporated. The final adjusted value of the assets is to be determined at closing (approximately \$68,000,000). Sales of Pacific Chloride were approximately \$80,000,000 for its latest fiscal year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

GNB INCORPORATED AND SUBSIDIARIES

NOTE L--SUBSEQUENT EVENTS--Continued

Subsequent to Pacific Dunlop Limited's purchase of its interest in Pacific Dunlop GNB Corporation (Note A), the Company purchased/sold inventory from/to Pacific Chloride as follows: purchased batteries (\$819,000), sold batteries (\$370,000), purchased oxide (\$400,000), sold lead (\$1,600,000). In November and December 1987, the Company and Pacific Chloride undertook certain cooperative efforts in the marketing and administrative areas.

In February 1988, the Company agreed in principle to form a joint venture partnership with Japan Storage Battery Company to manufacture batteries in the United States. The agreement calls for the joint venture to purchase the Company's Memphis, Tennessee land, plant and equipment.

Inter-Office Memo

GNB

To

VI

From

Dept./Div.



BATTERY RECEIVING



BATTERY BREAKING



REYERB FURNACE



BLAST FURNACE